

FISCAL ESTIMATE

ORIGINAL  UPDATED

DOA-2048 N(R10/98)

CORRECTED  SUPPLEMENTAL

LRB or Bill No./Adm. Rule No.

AB 186

(99-1430/3)

Amendment No. if Applicable

Subject

Taxes on Manufacturing Property: Allow Installment Payment of Refunds and Other Provisions

Fiscal Effect

State:  No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation  Increase Existing Revenues
- Decrease Existing Appropriation  Decrease Existing Revenues
- Create New Appropriation

Increase Costs - May be Possible to Absorb Within Agency's Budget  Yes  No

Decrease Costs

Local:  No Local Government Costs

- 1.  Increase Costs  
 Permissive  Mandatory
- 2.  Decrease Costs  
 Permissive  Mandatory

- 3.  Increase Revenues  
 Permissive  Mandatory
- 4.  Decrease Revenues  
 Permissive  Mandatory

5. Types of Local Governmental Units Affected:
- Towns  Villages  Cities
  - Counties  Others special districts
  - School Districts  WTCS Districts

Fund Sources Affected

GPR  FED  PRO  PRS  SEG  SEG-S

Affected Ch. 20 Appropriations

20.835 (2) (bm)

Assumptions Used in Arriving at Fiscal Estimate

The bill makes a number of changes regarding taxes on manufacturing property.

1. Payment of Refunds in Installments.

- a. Under current law, municipalities are required to pay refunds of property taxes, including interest, within 90 days of the final decision of an appeal. Under the bill, most municipalities, but not Milwaukee, have the option to pay refunds of taxes on manufacturing property that are \$10,000 or more in 5 annual installments, each of which, except the final one, must be at least 20% of the sum of the refund and interest. A similar provision provides for refunds of unlawful taxes on manufacturing property.
- b. Under the bill, the Department of Administration reimburses interest costs to municipalities that pay refunds of taxes on manufacturing property in installments. The bill creates a sum sufficient appropriation to reimburse interest costs.

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Long-Range Fiscal Implications

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- c. Under current law, interest on refunds is 0.8% per month or 9.6% per year. Under the bill, interest on refunds of taxes on manufacturing property is the lower of the rate on 6-month U.S. treasury bills or 10% per year.

**Fiscal Effect.** Payment of refunds in installments increases the interest cost of refunds which, under the bill, is shifted from the municipality to the state. For example, under current law, the total interest cost of a \$100,000 refund on which 1 year's interest has accrued would be \$9,600 (\$100,000 x 9.6%) and would be paid by the municipality. Under the bill, assuming a 5% rate for U.S. treasury bills and assuming 5 equal installments, the total interest cost of a \$100,000 refund would be \$15,487 (see table). Thus, in this example, municipal interest costs under the bill would decrease by \$9,600 and state interest costs would increase by \$15,487.

Installment	Outstanding Refund	Interest	Sum of Refund & Interest	Installment Amount
1	\$100,000	\$5,000	\$105,000	\$23,098
2	81,903	4,095	85,998	23,098
3	62,900	3,145	66,045	23,097
4	42,948	2,147	45,095	23,097
5	21,998	1,100	23,097	23,097
<b>Total</b>		<b>\$15,487</b>		<b>\$115,487</b>

- 2. Distribution of Taxes on Omitted Manufacturing Property to Overlying Taxing Jurisdictions. Under current law, municipalities do not distribute taxes or interest on omitted property to the overlying taxing jurisdictions. Under the bill, taxes and interest on omitted manufacturing property are shared with overlying taxing jurisdictions.

**Fiscal Effect.** In 1998, about \$5 million in omitted manufacturing property was added to local tax rolls. Assuming the 1998 average net tax rate for cities of \$24.97 per \$1,000 of value, about \$125,000 (\$5 million x \$24.97/\$1,000) in taxes were levied on omitted manufacturing property. In 1996 and 1997 about 74% of total property taxes were levied by overlying taxing jurisdictions. Thus, overlying taxing jurisdictions would receive about \$93,000 (\$125,000 x 74%) in taxes on omitted manufacturing property under the bill and municipal revenues would decrease by \$93,000.

- 3. Penalties for Late-Filed Property Reports.

- a. Under current law, manufacturers pay a penalty of the greater of \$10 or 0.05% of the prior year's tax, not to exceed \$1,000, for manufacturing property reports filed up to 30 days late. If the report is more than 30 days late, a second penalty is imposed but total penalties may not exceed \$2,000. The bill provides a graduated schedule of penalties, ranging from \$50 to \$500, based on the number of days the report is late.
- b. Under current law, the Department is required to allow an extension to April 1 for filing manufacturing property reports if the extension is requested before March 1. Under the bill, the extension is for 30 days and must be requested on or before March 1.

**Fiscal Effect.** The Department estimates that penalties paid by manufacturers for late-filed property reports totaled about \$350,000 in 1997. The increase in the minimum penalty from \$10 to \$50 and

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the decrease in the maximum penalty from \$2,000 to \$500 will have offsetting effects on total penalty revenue. The net effect is to reduce penalty revenue by about \$2,000 per year.

4. Provisions with No Fiscal Effect.

- a. Under current law, the Department notifies municipalities by February 15 which properties are classified as manufacturing. Under the bill, the Department is to notify municipalities by February 15 of the establishments which it knows it will classify as manufacturing that year. The bill requires manufacturers to apply for classification as a manufacturer by March 1.
- b. The bill reduces from 60 to 50 days the period after receiving its assessment within which a manufacturer or the municipality must file an objection to the manufacturing assessment.
- c. In filing an objection, a manufacturer must specify the reasons for objection, an estimate of the correct assessment, and the basis for that assessment. The Board of Assessors or the Tax Appeals Commission may deny an appeal if the requirements are not met.
- d. Under the bill, a municipality may file a cross-appeal to a manufacturer's objection within 15 days of the manufacturer's objection.
- e. Under the bill, interest on taxes that results from an increased assessment due to an appeal of a manufacturing assessment by a municipality is distributed to the overlying taxing jurisdictions. Interest is based on the rate on 6-month U.S. treasury bills.

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**FISCAL ESTIMATE  
DOA-2047 N(R10/98)**

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**Subject**  
Taxes on Manufacturing Property: Allow Installment Payment of Refunds and Other Provisions

**I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):**

II. Annualized Costs:	Annualized Fiscal impact on State Funds from:	
	Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringe (FTE Position Changes)	\$ -	\$ -
State Operations-Other Costs	( FTE)	( - FTE)
Local Assistance	see text of fiscal note	-
Aids to Individuals or Organizations		-
<b>TOTAL State Costs by Category</b>	\$ -	\$ -
<b>B. State Costs by Source of Funds</b>		
GPR	\$ see text of fiscal note	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS		see text of fiscal note
SEG/SEG-S		-
<b>TOTAL State Revenues</b>	\$	\$ -

**NET ANNUALIZED FISCAL IMPACT**

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$ see text of fiscal note	\$ see text of fiscal note
NET CHANGE IN REVENUES	\$ see text of fiscal note	\$ see text of fiscal note

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